Memorandum

To: Chair and Commissioners **Date:** April 25, 2002

From: Diane C. Eidam **File No:**
Reference No. 5.1c.
Action

Ref: **<u>Review and Action on the North Coast Railroad Authority's (NCRA) Financial Plan for Administration and Debt Reduction (Fiscal Year (FY) 2002-03 through FY 2007-08)</u>**

<u>Issue</u>: Should the Commission approve North Coast Railroad Authority's (NCRA) proposed financial plan for administration and debt reduction?

<u>Recommendation</u>: Staff recommends that the Commission approve NCRA's proposed financial plan for administration and debt reduction. NCRA has identified about **$1,190,000 in unrestricted funding sufficient to provide for its projected administrative needs from fiscal year (FY) 2002-03 through the first half of FY 2004-05**, while still meeting its commitments with respect to liability obligations. NCRA has also identified potential funding sources for further research to assist in meeting the expected deficit in the later fiscal years. NCRA has identified potential liabilities that are characterized as annual, long-term, "to-be-forgiven", not valid, and deferred. Those identified as being legitimate obligations total $14,220,675 of which $12,000,000 is the Q-Fund loan obligation that will be paid in 2013 from the revenues generated by the funds held in trust.

<u>Background</u>:

The Commission, at its February 28, 2002 meeting, requested NCRA to return at its May meeting to provide and present the following:

- A revised financial plan explaining how NCRA intends to fund its administrative operations for FY 2001-03 through FY 2007-08. *(The Commission pointed out that NCRA's request for additional administrative funds from the TCR Program was unlikely, since the entire $1,000,000 available for that purpose has been approved and allocated.)*
- Information regarding the likelihood that identified revenue sources are available and can be used.
- Revised debt reduction spreadsheet reflecting projected net revenues generated from future operations.
- Detailed explanation of assumptions used to develop the two alternatives, as well as supporting text explaining the overall proposal. *(One alternative was eliminated based on reevaluation of original proposal.)*

Resolution TA-01-18, adopted December 12, 2001, also directed the North Coast Railroad Authority (NCRA) to demonstrate to the Commission how it will fund its administrative operations beyond June 30, 2002, when the administrative funds provided through the Traffic Congestion Relief (TCR) Program will be exhausted:

> ***"No additional TCR Program funds shall be allocated to the NCRA, beyond the $17,750,000 allocated to date, until such time as NCRA demonstrates to the Commission how it will fund administrative operations beyond June 30, 2002."***

Development of NCRA Financial Plan

Commission staff, the Department and Senator Wesley Chesbro's staff met with NCRA on three separate occasions to ensure that NCRA understood what was expected pertaining to the items requested by the Commission at their February 28, 2002 meeting. Department District staff and Senator Chesbro's staff met with NCRA on another occasion to further discuss the information to be presented.

NCRA worked with the Department, Senator Chesbro's staff and Commission staff on its Report to the California Transportation Commission on The North Coast Railroad Authority and accompanying spreadsheets that will be presented to the Commission at its May 9, 2002 meeting. The intent of the report is to provide an evaluation of projected costs and identifiable funding sources until such a time as operational revenues are available to fully support the NCRA. The report also identifies NCRA's existing debt and provides an explanation of when and how this debt will be paid. The report also addresses the status of the assessments currently in progress. The NCRA Board adopted the report on April 17, 2002.

Administrative Operations Funding

NCRA has identified about $1,190,000 in unrestricted funding sufficient to provide for its projected administrative needs from fiscal year (FY) 2002-03 through the first half of FY 2004-05 while still meeting its commitments with respect to liability obligations. The identified unrestricted funding sources provide NCRA a total of $916,400 in the current (2001-02) FY and an additional $276,000 in FY 2002-03 of unrestricted funds.

Unrestricted funding sources include annual property revenue ($180,000 annually for FY 2001-02 through FY 2013-14), FEMA/OES retention ($396,000 in FY 2001-02 and $96,000 in FY 2002-03), Santa Rosa easement ($338,400 in FY 2001-02) and sale of surplus equipment (FY 2002-03 $124,000).

Additional administrative support will be needed from mid-FY 2004-05 through FY 2012-13. In FY 2013-14 sufficient revenue from operations will be available to fully support administrative needs and meet expenditure obligations. It is estimated that net revenues from operations will start in FY 2007-08 beginning at $200,000 and escalate to $1,300,000 by FY 2012-13.

NCRA has indicated that its Property Management Committee has agreed to take a more active part in oversight of property management and will be making sure that all available resources are utilized in aggressively pursuing additional revenue from leases and other property uses. The NCRA Board recently approved revised fees and directed the Property Manager to bring all leases current. The revised fees will lessen the need for future administrative subsidy. Upon the receipt of the revised fees, NCRA will need to update its Project Revenue and Expenditure Summary to account for the additional revenue.

Status to Debt

NCRA has identified potential liabilities that are characterized in its report as annual, long-term, to be forgiven, not valid, and deferred. Those identified as being legitimate obligations total $14,220,675 of which $12,000,000 is the Q-Fund loan obligation that will be paid in 2013 from the revenues generated by the funds held in trust by the State Treasurer's Office Local Agency Investment Fund pursuant to a MOU between the Commission and NCRA. Payment on the Q-Fund loan in the amount of $1,300,000 is due in

FY 2001-02 because of a disallowed right-of-way cost. Projecting the current Q-Fund balance forward at the average annual return of the past ten years (5.4942%) produces a potential shortfall of $700,000 when the repayment is due in 2013. NCRA will need to plan for dealing with the potential shortfall.

Annual payment of $106,175 for NCRA's liabilities include four debts that have various termination dates after which, the funds that are currently dedicated to making the specific annual payment can be reallocated to other uses. Two debts will be paid off in FY 2006-07, and the remaining two will be paid off between FY 2009-10 and FY 2011-12. Two long-term liabilities exist which comprise of notes with specific due dates or payment is triggered by a specific event. These long-term debts will be paid in FY 2002-03 and 2011-12.

Attachment

A Report to the California Transportation Commission

On

The North Coast Railroad Authority

May 2002

Executive Summary

Administrative Funding

NCRA has identified unrestricted funding sufficient to provide for its projected administrative needs from fiscal year 2002-03 through the first half of fiscal year 2004-05 while still meeting its commitments with respect to liability obligations. The identified unrestricted funding sources provide NCRA a total of $916,400 in the current (2001-02) fiscal year and an additional $276,000 in fiscal year 2002-03 of unrestricted funds. There will be need for additional administrative support from mid-2004-05 through early 2008-09 when it is anticipated that sufficient revenue from operations will be available to fully support administrative needs. Schedule A provides a detailed summary of the projected revenues and expenditures through fiscal year 2013-14. Schedule B provides NCRA's administrative expenditures for fiscal years 2000-01 through the current year and the recently adopted administrative budged for 2002-03.

NCRA intends to aggressively pursue additional revenue from its leases and other property revenues and ways to reduce administrative expenditures to lessen the need for further administrative subsidy.

Status of Debt

NCRA has potential liabilities that are characterized as annual, long-term, to be forgiven, not valid, and deferred. They are listed by category on Schedule C. Those identified as being legitimate obligations total $14,220,675 of which $12,000,000 is the Q-Fund loan obligation that will be paid in 2013 from the revenues generated by the funds held in trust by the State Treasurer's Office Local Agency Investment Fund pursuant to a MOU between the Commission and NCRA.

Schedule A provides NCRA's projected retirement of its liabilities utilizing identified revenues projected through fiscal year 2013-2014.

Background

The 2000 Traffic Congestion Relief Program (TCRP)

The Traffic Congestion Relief Program was established with the adoption of AB 2928 in 2000. It provided a total of $60 million to NCRA to address various immediate, intermediate and long term needs related to administrative expenditures ($1,000,000), repayment of the Q-Fund loan ($5,500,000), environmental remediation ($4,100,000), debt reduction ($10,000,000), re-opening to Willits ($600,000), re-opening Willits to Arcata ($1,000,000), upgrading to FRA Class 2 and 3 ($5,000,000), local match funds ($1,800,000) and long-term slope stabilization ($31,000,000).

These funds are under the direction of the California Transportation Commission (CTC) and are available for allocation as directed by the legislation. Thus far $17.75 Million has been allocated by the CTC for the following items:

$10.00 Million for Debt Relief
$ 1.00 Million for Administrative Expenses (2000-01 and 2001-02 FY)
$ 5.50 Million for repayment of the acquisition costs from FHWA (Q-Fund Loan)[1]
$ 0.60 Million for completion of rail line – Lombard to Willits (completed April 2002)
$ 0.60 Million Capital Projects and Environmental Consent Assessments (due June 2002)
$ 0.05 Million for Local Matching needed for use of ISTEA funding (still pending)

Pursuant to AB 2928 and subsequent action by the California Transportation Commission (CTC), future funding allocations to the NCRA were conditioned upon completion of a Strategic Plan and an assessment evaluating the capital needs of the entire line providing a clear scope of the costs associated with its rehabilitation. In May of 2001 the CTC accepted NCRA's *Strategic Plan for Resumption of Viable Rail Service to California's North Coast* and authorized the expenditure of TCR funds for the preparation of a comprehensive assessment of the railroad's capital project and environmental consent needs.

Purpose of Report

The California Transportation Commission (CTC) has requested that the North Coast Railroad Authority (NCRA) provide at the Commission's May 2002 meeting an evaluation of projected costs and identifiable funding sources available to fund the NCRA administrative and maintenance of way needs until such time as operational revenues fully support the railroad. ***Schedule A*** attached to this report provides, in support of the text, a detailed summary of the anticipated expenditures and revenue sources through fiscal year 2013-14.

This report also contains clarification, by the NCRA, on its existing debt and provides an explanation on when and how this debt will be repaid. Additionally, a discussion regarding the current status of the contract with the County of Sonoma [for accounting services] as well as a progress report on the Capital Projects and Environmental Consent Assessments are included.

---

[1] Caltrans audit exceptions require re-payment on the FHWA Q-Fund loan of $1.3 million in fiscal year 2001-02. This obligation is to be paid from the trust fund currently generating interest in the State Treasury. The total remaining amount due is $10.7 million which will be due in 2013 unless NCRA is successful in getting this debt forgiven.

A brief history of the North Coast Railroad Authority has been included with in this report. Although not a complete chronology of events, certain salient points are highlighted in an attempt to provide some background for Commission members in the context of the issues currently facing the Authority.

Mission of the NCRA

It has long been understood that the long-term viability of the former Northwestern Pacific Railroad (NWP) requires that the entire line, from Humboldt Bay in the north to the point of interchange at Lombard in the south be open to revenue generating freight and excursion passenger service. That has been the consistent mission of the NCRA since its formation in 1989.

The NCRA Board of Directors and staff are unconditionally committed to restoring service on the entire line. This will be accomplished through the completion of all the projects identified in the Strategic Plan and the Capital Projects Assessment. The Board takes seriously its responsibilities to both the communities it services as well as the people of the State of California who have entrusted the funding to make possible the return of the NWP to its former viability.

Recent improvements to the Port of Humboldt Bay coupled with the interest in development of new rail dependent industries along the corridor indicate that the re-establishment of rail service will be a major component in the overall economic recovery of the entire region.

NCRA is dedicated to working with the agencies and the commission to achieve the vision of the Governor's Administration in returning sustainable rail service to the North Coast region of California.

History of the North Coast Railroad Authority

Rail service on the North coast dates well back into the 19th century. Completion of the connection between Eureka and San Francisco was attained in 1914. Designated the Northwestern Pacific Railroad (NWP), it was jointly owned by Santa Fe and Southern Pacific Railroads and operated independently until 1929 when it became exclusively part of Southern Pacific Railroad.

The NWP was the only means of transportation within the corridor prior to completion of Highway 101 and remained the sole means of substantial freight movement for decades. It is worthy of note that the railroad has survived many natural disasters and was restored much sooner than State Highway 101 after the devastating and record setting storm of December 1964.

Southern Pacific sold the portion north of Willits in 1984. Called the Eureka Southern, it operated until December 1986 when it declared bankruptcy. A Federally appointed bankruptcy trustee managed the railroad until 1992. Southern Pacific maintained ownership and continued to operate the NWP, south of Willits, through an operating agreement with the California Northern Railroad.

In 1989 the California Legislature created the North Coast Railroad Authority (NCRA). Utilizing State provided funding (Proposition 116) this new authority acquired the former Eureka Southern out of bankruptcy in 1992 and in 1996 acquired the portion of the NWP between Willits and Healdsburg.

The remaining portions of the NWP south of Healdsburg were acquired from 1983 through 1996 The ownership of the Healdsburg to Lombard segment is under Northwestern Pacific Railroad Authority (NWPRA) ownership; a joint powers agency comprised of NCRA, the Golden Gate Bridge, Highway, and Transportation District, and the County of Marin. Other portions are owned by the Bridge District and the County of Marin separately from NWPRA. Part of the joint powers formation documents provided that NCRA was to receive approximately $8.6 million in Intermodal Surface Transportation Efficiency Act (ISTEA) demonstration funds to be used for capital projects on the north portion of the line. In exchange for these funds, NCRA became obligated to repay the $12.0 million FHWA revolving Q-Fund loan that was used to acquire this portion of the line. The total acquisition cost was just under $45 million, including $11 million in State funds (Transit Capital Improvement) and $20 million from Federal transportation funding (HR 2 and ISTEA).

In 1997 the NCRA Board prepared a request for proposal (RFP) seeking a private sector operator to provide freight service and maintenance of the railroad. Proposals were received and Rail-Ways, Inc. of Elgin, IL was chosen to negotiate for the permanent operator. Rail-Ways, Inc. functioned as an interim operator and additionally provided repair services through its construction company, NORCARE. In December 1999, Rail-Ways, Inc sold its investments and interests in the NWP to the chosen permanent operator, Northwestern Pacific Railway Co., LLC (NWPY) and the common carrier freight operations and maintenance responsibilities were fully assumed by NWPY.

Within weeks of reaching an agreement, the El Nino storms of 1998 closed the railroad north of Willits with a series of major landslides. Decades of deferred maintenance, by former owners, left the railroad in a serious state of disrepair. A Federal disaster was declared and FEMA/OES began the task of accessing their applicable damage estimates to support an allocation of grant funds.

Thereafter, due to a number of administrative and accounting issues related to prior disaster relief, the 1998 storm damage funding from both State and Federal sources was delayed. Even some previously approved work was determined to be ineligible although the work had been both authorized and completed. The retroactive application of a policy prohibiting reimbursement for landslide stabilization activities resulted in work totaling in the many hundreds of thousands of dollars being disallowed for reimbursement after the work was completed pursuant to approved projects.

To complicate matters even more, a portion of these new 1998 funds were recaptured, by FEMA, to satisfy past obligations as noted in their audit. Without operating revenues and with the anticipated disaster relief funding significantly altered, NCRA was left with a growing accumulation of liabilities that exceeded $8 million by the end of 1998. Rail-Ways managed to operate freight service south of Willits until Federal Railroad administration (FRA) Emergency Order 21 closed the entire railroad in November 1998.

In the summer of 1998, AB 2782 provided $2 million in funding. This funding allowed NCRA to address the issue raised in audits; namely implement an accounting system that properly tracks project costs. A portion of this allocation provided for administration of the Authority, including the recruitment of an Executive Director. NCRA was able to begin addressing environmental concerns raised by several State agencies, satisfy employee claims for unpaid compensation, pay past claims for payroll tax deposits, and partially address general creditors. A portion of the funds were used to address FRA Emergency Order 21 repairs, and reimburse legal counsel for fees and expert witness costs relating to FEMA appeals and the environmental litigation, that culminated in the Consent Decree agreed to by all parties in 1999.

Finally, an agreement was reached with FEMA and State OES in June of 1999 that allowed storm damage funding to proceed for the 1998 storms. Unfortunately the first allocations of these funds were recaptured by FEMA and OES to satisfy outstanding obligations from past disasters. That left the 1998 storm contractors without payment and increased NCRA's outstanding debt. Even though the initial work remained unpaid, these contractors continued to make repairs to the south end in spite of this debt. Although they did receive payment for subsequent activities, eventually NCRA's inability to provide payment forced a discontinuance of repair work in late 1999.

Serving its own interests, NWPY self-funded completion of the work necessary to reopen the railroad from Lombard to Mile Post 43 near Penngrove (North of Petaluma). NWPY has subsequently claimed reimbursement for their work and that claim was denied by NCRA. The motivation for NWPY to do this work, at its own expense, was their forecasted revenue generation for freight service from shippers along this portion of the line. The FRA approval to resume service was granted on February 1, 2001 for this 40.8 mile portion of the railroad. Freight service was resumed on this portion of the railroad February 14, 2001.

In early 2001 the Surface Transportation Board approved the transfer of the railroad's common carrier certificate of public convenience and necessity to the NWPY where it remains.

Current Status

NWPY ceased operation in September 2001. The lease and operating agreement is in dispute. However, NCRA and NWPY have had several meetings in an attempt to arrive at a mutually acceptable resolution of their differences to avoid the possibility of protracted litigation.

NCRA takes no delight in its chosen course of action. The Board of Directors' goal is to sever all relations with NWPY without incurring any additional cost.

Future Freight Operations

The NCRA has prepared a request for proposals (RFP) for a permanent freight operator replacement. NCRA anticipates completion and distribution of this RFP to all potential operators in April 2002. It is anticipated that proposals will be received by late June and negotiations completed with the selected firm by mid-August. Freight service will be resumed between Lombard and Willits as soon as the selected firm can begin its operation.

Capital Projects and Environmental Consent Decree Assessment

The NCRA expects the Capital Projects Assessment and the Environmental Consent Decree Assessment to be completed by the end of June 2002, and ready for CTC consideration at the August meeting. These assessments are critical for the NCRA because they will provide a clearer picture of what the scope, cost and schedule associated with the reopening, upgrading and long-term stabilization projects will likely be. These projects, when taken cumulatively, form the enduring strategy for the comprehensive rehabilitation of the NWP corridor. Thus, the NCRA will have the necessary data to refine the 2001 Strategic Plan and provide a well-defined approach to complete the overall project.

With the completion of both assessments, NCRA will be well positioned to commence the appropriate environmental review documents. It is anticipated that the environmental review process on the south end will be less complex than on the north end. Consequently, funding approval for projects on the southern portion of the line, separate and apart from funding for projects on the north portion of the line will be a targeted goal upon completion of the assessments. This will enhance the ability to upgrade the southern portion of the line to Class 2 and Class 3 status sooner, thereby taking advantage of the increased utilization commensurate with the improvements made.

Administrative Funding Sources

Schedule A illustrates the potential sources of unrestricted funds for use to address the administrative budget and maintenance of way needs of the NCRA from fiscal year 2002-03 though 2013-14. The revenues sources are categorized as follows.

Property Easement/License Revenues

The NCRA's property revenues comprise the most reliable source of funds that have been identified. The current property revenue account balance is $200,000. According to projections, this revenue source is expected to yield at least $180,000 annually based on the revenues received during the current year from existing agreements for use of NCRA owned property. The amount of $27,900 is committed annually for the next ten (10) years to fund the interest payments to the "debt relief" creditors that chose "payment in full" of all interest over time as identified in the TCR debt repayment process under Option B.

A one-time payment of $18,000 – is due in this current fiscal year (2001-02) which will be taken from the $200,000 beginning balance in the account. This amount is the NCRA contribution as the local match portion of State grant funds in the amount of $150,000 to be provided through the Mendocino County Council of Governments (MCOG) for rehabilitation of the historic Ukiah Depot. The NCRA is working with the Ukiah City Manager's Office on this project. When completed NCRA will be able to utilize a portion of the building for the engineering consulting team, thus reducing the overall cost of the consultant agreement.

NCRA's Property Management Committee has agreed to take a more active part in oversight of property management and will be making sure that all available resources are utilized in aggressively pursuing additional revenue from leases and other uses of property. The NCRA Board recently approved revised fees and directed the Property Manager to bring all leases current.

FEMA/OES Retention

The NCRA is working with the State Office of Emergency Services (OES) on the release of the retention funds, from the completed south end re-opening project. OES is expected to release $396,000 in fiscal year 2001-02 with an additional $96,000 in fiscal year 2002-03. These funds are unrestricted.

Santa Rosa Effluent Agreement

An Easement has been granted to the City of Santa Rosa. The net revenue to the NCRA is $338,400 and payment has been received. These funds are unrestricted.

Freight and Excursion Passenger Revenues

The Strategic Plan (April 13, 2001) identifies revenue to NCRA in excess of $500,000 per year from freight and $100,000 from excursion passenger service by the second year of operations from the fully restored and upgraded infrastructure. Revenue is projected to increase to nearly $2,000,000 by the fifth year. For the purposes of this report, NCRA takes a conservative approach and assumes operational revenues beginning the second year after re-opening the entire line and increasing modestly to attain the $1,300,000 level over five years. That assumption will result in the following revenue stream:

2001-02 through 2007-08	$ 0
2008-09	$200,000
2009-10	$450,000
2010-11	$700,000
2011-12	$1,000,000
2012-13	$1,300,000
2013 and beyond	$1,300,000

Note: <u>There are no restrictions on the use of these above-stated funds.</u>

Restricted/Allocated Funding Sources

The NCRA has identified the following restricted funding sources which will be used for capital projects, maintenance-of-way, and overall improvements on the line. The NCRA has also identified, where possible, legislation that can be used to redirect funds.

AB 2908 --Old Transit Capital Improvement (TCI)

The NCRA has identified $497,000 of old TCI (AB 2908) funds. These funds are restricted to capital projects and legislation would be required to redirect these funds for either administration, debt reduction or maintenance-of-way.

Governor's Traffic Congestion Relief Program (TCR)

The NCRA has a remaining $42.25 million of unallocated funds from the original $60 million. These funds are very specific in their use.

Federal Funding

NCRA currently has $8.6 million available for capital projects from the ISTEA demonstration funds. Additionally, NCRA will be working with its Federal representatives to secure funding through the re-authorization of the federal transportation funding legislation (TEA-21). This approach will be used to address potential forgiveness of the Q-Fund loan and funding for any shortfall identified in the capital project and environmental remediation assessments currently underway.

Congressional forgiveness of the Q-fund obligation would allow redirection of some $5.2 million in funds currently held in the State Treasury; $5.5 million of which was allocated in the TCRP for repayment of the Q-fund loan and approximately $900,000 from the TCI funding program, less the $1.3 million audit exception that needs to be paid to Caltrans this fiscal year. Those funds, subject to required administrative and/or legislative action, could be reprogrammed to address NCRA's administrative, maintenance of way and/or capital project needs pursuant to the Strategic Plan.

Projecting the current Q-Fund balance forward at the average annual return of the past ten years (5.4942%) produces a potential shortfall of $700,000 when the repayment is due in 2013. NCRA will need to plan for dealing with the potential shortfall. It should be noted, however, that an increase in the average annual return of only 0.5574% to 6.0516% would provide for full payoff on time.

The development of commuter rail in Sonoma and Marin Counties could trigger early repayment of the Q-Fund loan should the track be upgraded beyond the historic level of service. Should that happen, the commuter rail agency would be required to assume any additional cost generated by their activity through a negotiated agreement with NCRA for joint use of the track.

Signal Crossing Maintenance Funding

NCRA receives funds under the California Public Utilities Commission (CPUC) Crossing Maintenance Fund, currently established at $122,000 per year. These funds are expressly reserved for maintenance of specific crossing protection in accordance with CPUC regulations. NCRA has been in contact with staff at CPUC regarding current and future allocations and uses of these funds.

Local Agency Funding

Humboldt and Mendocino Counties have both programmed portions ($500,000 and $1,170,000 respectively) of their 2002 STIP funds for rail/highway crossing improvements. These are funds that will allow for local improvements to streets and highways where there are railroad crossings. Total cost is unknown at this time. NCRA will also work with its local and regional partners in an attempt to generate additional local funding to address administration, maintenance of way, and capital project needs.

Administrative Issues

Fiscal Year 2002-03 Budget

NCRA's preliminary budget for FY 2002-03 is attached as Schedule B. It indicates a significant reduction (approximately $81,000 or about 16%) from the current fiscal year's expenses. The administrative budget provides for the Authority's personnel costs, services, supplies, and contracted services for legal, accounting, and insurance. Although the reduction in both real dollars and percentage is aggressive, both the finance committee, in its recommendation to the board, and the board, in is initial review of the budget, recognize the importance of the commitment to reducing the overall costs, while providing for the necessary services and expenses required to operate the authority.

Maintenance of Way Funding

Until a functioning permanent freight operator is located, NCRA has no means to provide the on going maintenance effort that is required to protect the railroad from the normal degradation associated with lack of use. NCRA has no forces present or available to respond to problems that may occur causing an impact on the public and private road crossings, navigable waterways, and adjacent properties all with the possibility of creating potential safety hazards. Under not all to uncommon circumstances, where public safety concerns arise, certain local and/or state authorities may require an immediate response.

At the present time the maintenance of way functions are being deferred due to lack of available funding. Property revenues are utilized on a very limited basis for providing minimal response to emergency situations. Recognizing NCRA's financial situation, local agencies have been, to a point, willing to provide needed repairs to street and road crossings. Community public works departments have also responded to storm related emergencies. Even adjacent property owners have provided needed maintenance of drainage facilities for the benefit of both the railroad and their property.

The selected freight operator will be responsible for providing all maintenance of way requirements. The previously addressed RFP process will be utilized to determine the ability for future revenues to support this activity in addition to the costs of operation as evidenced by the proposals received. Information developed by the Long Range Marketing Study will be provided to prospective operators to assist in the preparation of their proposals and will, no doubt, be supplemented in great detail by the "due diligence" research conducted by each prospective operator.

The development of Capital Projects will be conducted in a manner intended to best meet the needs of the shipping community in order to minimize the operational and maintenance burden on the operator to the maximum extent possible.

The completion of the Capital Project Assessment and the Long Range Marketing Study coupled with the receipt of proposals for freight operator that are all due by the end of June, will allow NCRA to evaluate the short and long term operational and maintenance needs in conjunction with the development of the Capital Projects. In doing so NCRA will be in a position to make informed decisions regarding the restoration of full service, upgrade to improved status, and stabilize landslides to provide the long-term viability required to meet the needs of the shipping community on the North Coast.

Liability Reduction

When the TCRP funding was originally allocated, the amount of $10 million was thought to be the total amount needed to provide complete debt relief. Soon after the debt schedule was completed and approved by the Commission, it became clear that additional debts, beyond those that had not been incorporated into the schedule, existed. Some of those debts required annual payments and some were in the form of long-term debts/promissory notes payable at a future date, or as the result of a specific event. NCRA has been focused on the best way to resolve this shortfall and provides the Commission with further details of the origin, amounts outstanding and the plan for repayment.

Annual Payment Liabilities

There are four (4) debts that require annual payments. The total of these annual payments is $106,375. These debts have various termination dates after which, the funds that are currently dedicated to making the specific annual payment can be reallocated to other uses. The following details the annual payments required by the NCRA in accordance with existing agreements.

- A total of $279,000 for creditors who chose (option B) to get complete interest payments spread out over the long-term instead of a one time pro-rata payment. This will be paid off in ten annual payments of $27,900 per year. Audit exceptions relating to work performed by Herzog Contracting Company, one of the Option B interest recipients, have been noted by Caltrans. NCRA fully intends to address this matter with Herzog in the near future. NCRA anticipates that those discussions could result in a substantial reduction in the amount due Herzog. The net result could allow that the same annual installments retire the remaining interest sooner. That would have the effect of recapturing a portion, if not all, of these funds for use to defray administrative costs at an accelerated rate.

- A balance of $107,000 is owed to the Redwood Region Economic Development Commission (RREDC) for a loan provided to NCRA in 1992. The terms of this loan requires an annual payment of $21,400 through fiscal year 2006-07. This loan was secured by passenger equipment, the sale of which could result in early payoff. The NCRA is currently working through the process authorized by the Board of disposing of various pieces of its surplus equipment. The total revenue that could be realized from the sale of this surplus equipment is not currently known. In addition, NCRA is examining all possible restrictions that may preclude the use of revenues generated from the disposal of this surplus equipment for purposes other than repayment to the funding sources that were utilized in the original acquisition of this equipment.

- The NCRA has a balance of $190,000 for a loan with North Western Pacific Railroad Authority (NWPRA). This loan requires an annual payment of $50,000 through fiscal year 2006-07. Security for the loan is the Ukiah Depot property. The loan agreement stipulates that if the Depot property were to be sold, prior to payoff, proceeds sufficient to satisfy the remaining balance of the loan would be due the NWPRA upon consummation of the sale. However, there is no such plan under consideration by NCRA for the sale of the Ukiah Depot property. With the current legislation AB2224 pending in the Assembly, NCRA fully intends to work to restructure the easement agreements with NWPRA. Additionally, NCRA will be exploring the forgiveness of this loan since it amounts to costs incurred in making major infrastructure repairs to NWPRA owned property.

- The NCRA has a balance of $63,675 for past locomotive rental from TXL Capital Corporation. This debt requires an annual payment of $7075 through fiscal year 2010-11.

As indicated above NCRA is currently obligated to pay $106,375 per year. In June 2006, the total annual payment will be reduced by $21,400 with further reduction in June 2007 of $50,000. This will leave a remaining annual payment on these debts of $34,975 scheduled to conclude in June 2011.

Long Term Liabilities

These debts are comprised of promissory notes with specific due dates or payment is triggered by a specific event.

- The PALCO promissory notes totaling $170,000 are due 2006. These notes represent loans made to the NCRA in 1995 and 1996. The loans made by a shipper were made during a time when NCRA had no other source of funds sufficient to meet its operating expenses. NCRA intends to negotiate a longer term for payoff of this obligation.

- The Meecham loan totaling $124,000 secured by specific passenger cars. The note requires payment in full upon the sale of this equipment. NCRA anticipates that the equipment will be sold in FY 2002-03. There are no restrictions on the use of any excess proceeds received from the sale of this specific equipment.

Other Liabilities

Liabilities to be forgiven

The Community Disaster Loan regulations provide for forgiveness, the paperwork has been filed, and final approval is expected. The applicable statute can be found in 42 U.S.C. 5184 and it states "Repayment of all or any part of such loan to the extent that revenues of the local government during the three full fiscal year period following a major disaster are insufficient to meet the operating budget of the local government, including additional disaster-related expenses of a municipal operation shall be cancelled." The current balance is approximately $800,000 Recent correspondence from FEMA (March 11, 2002) acknowledges the current status as reported here.

Liabilities not considered valid

Boyle Engineering Invoice— Boyle Engineering has submitted invoicing for preparation of bid documents for the Windsor to Willits re-opening project. At the outset, Boyle agreed to provide the services free of charge. Consequently no agreement was approved by the board or entered in to covering this work. Since NCRA was not informed that the contractor would change their position and submit a future invoice it is not considered a valid obligation. The amount invoiced by Boyle is $47,000.

Rail-Ways Bankruptcy— NCRA has rejected the claim and provided notice to the Claimant. A creditors committee has been formed in the Rail-Ways bankruptcy proceeding. The Committee has represented to the court that the Rail-Ways claim "appears to the Committee to lack merit". The NCRA holds a release executed by Rail-Ways. Caltrans legal staff has reviewed this issue and determined that TCRP funds provided to NCRA are not at risk for capture by the bankruptcy proceedings. The amount claimed is $2,000,000.

Rail-Ways/NWPY/Norcare-- NCRA has rejected the claim and provided notice to the Claimant. NCRA Legal Counsel has advised that this is not a valid claim. Identical claims were filed by three separate entities, Rail-Ways, Norcare, and NWP, in an apparent attempt to avoid an argument over which of the three companies, all controlled by the same individual, is the proper claimant. NCRA holds a valid release from Rail-Ways that extends to all of the claims. The amount claimed is $3,546,826.

Mass Electric Claim-- NCRA has rejected the claim and provided notice to the Claimant. NCRA Legal Counsel has advised that this is not a valid claim. NCRA had no contractual relationship with Mass Electric, as they were a sub-contractor to Rail-Ways, Inc. for signal repairs. Rail-Ways, Inc. disputes the amount due Mass Electric. In addition, Mass Electric did not comply with the public agency claims procedure specified by state law. The amount of the claim is $1,328,000.

Caltrans audit exceptions ($500,000)—Caltrans has questioned payment for south end repair under Proposition 116 funding due to confusion surrounding the project description and its relationship with concurrent work funded by FEMA and OES. NCRA is providing a history of events as the background for a technical review by Caltrans to resolve this issue.

Deferred Liabilities

The following is a list of liabilities that will be deferred, receiving no regular payments until such time as the NCRA has unrestricted funding sources that can be used to retire these debts.

- Christopher J. Neary, attorney at law—This amount ($122,000) represents a greatly reduced reimbursement for past legal services as specified in the current agreement for legal services between NCRA and Chris Neary. Mr. Neary has indicated his willingness to wait for discretionary funds to retire this obligation. It was he that requested TCR Debt Reduction funds not be used.

- General Accident Insurance Company--Omitted from the TCR Debt Reduction list in error due to a very similar company name and amount to a debt that was reduced to a judgment—General Star Indemnity. Subsequently determined to be a valid and separate obligation. The amount is $50,000.

- Union Pacific Railroad Car Hire-- This amount ($371,000) represents a projection of prior billings from the UP. However, it is customary in the industry for carhire to be suspended when a rail line is embargoed, as is the case of the northern portion of the railroad where the cars are presently trapped. NCRA is exploring, with the cooperation of UP, a way to fund the purchase of the cars at their depreciated value that would eliminate the carhire claims. It grows at a rate of $186,000 per year, but NCRA understands that it is capped at the depreciated value of the cars. NCRA has contracted with a car hire accountant and a mechanical car inspector to assist with identifying ways to reduce the obligation.

- Other Railroad Car Hire-- This potential debt ($561,000) has never been invoiced past 12/31/99. It too will be the subject of negotiation for potential purchase of cars at adjusted depreciated values. The potential car hire grows at $280,000 per year and is also capped at the depreciated value. The car hire accountant and car inspector are working on these cars as well. These cars belong to major railroads like Burlington Northern-Santa Fe, smaller railroads like Galveston, foreign railroads like Canadian Pacific, and companies that lease cars like TTX Corp.

- Troutman Sanders Law Firm-- Legal services ($17,000) provided by this Washington, DC legal firm for a negotiated reduction in the car hire paid as part of the TCR Debt Reduction. The original Union Pacific car hire obligation was much higher and NCRA was able to reduce the amount with the assistance of the legal services provided by this firm. They specialize in railroad and interstate commerce litigation.

- Caltrans Audit Exceptions ($166,000)—Items found to not be eligible in an audit of the south end Prop. 116 project. The source of re-payment is subject to further negotiations with the contractor that provided the services questioned. The amount is not in question, but the source of funding for repayment is.

County of Sonoma Accounting

NCRA has contracted with Sonoma County to provide accounting services. The County will also provide payroll services beginning July 1,2002. In the interim, payroll is being provided through the Eureka accounting firm of Aycock and Edgmon. NCRA has provided written procedures for implementation of the Sonoma County agreement and the interim situation.

Status of the Assessments

On March 20, 2002 the NCRA Board received a report from Willdan/HNTB project manager David Anderson. Both the capital project and consent decree assessments are well underway and on schedule. Enough work has been completed to indicate that the funding available will, indeed, be sufficient to provide the information needed from these documents.

Data collection and field investigation activities for the consent decree assessment are 75% complete and a rough draft for internal review is due to be provided to Mr. Anderson by March 27. The final draft will be provided to NCRA and the state agencies on April 4. Bradley Erskine from Kleinfelder is the team leader for this activity.

The capital project assessment team held a kick-off meeting on February 19. Data collection is complete and generated significant information that will be valuable to the assessment strategy. Team leader David Anderson and Doug Christy (NCRA Assistant Executive Director/Project Manager) have made numerous trips to identify accessibility and have produces a map for use by the assessment teams. The geotechnical assessment team began work on March 18, the track and signal assessment team began on March 21, and the bridge team began on March 25.

Long Range Marketing Study

The Port of Humboldt has solicited proposals for a harbor revitalization plan. A component of the Port's document is a long-range marketing study for the NCRA. Currently, the consultant selection process has screened the proposals submitted down to seven that were interviewed on March 25 and 29. NCRA's Assistant Executive Director/Project Manager Doug Christy is participating on both the interview team and rail technical advisory committee.

Spencer Clifton, Executive Director for the Humboldt County Association of Governments is also participating as the grantee representative. The Harbor District met on April 11 and awarded the consultant contract. The rail study is scheduled for completion in June.

Conclusion

NCRA has identified the funds available and the needs associated with providing for NCRA's administration and debt repayment. As depicted on the accompanying schedules A and B, the discretionary revenue available to NCRA will provide for the administrative needs through fiscal year 2003-04 and more than half of fiscal year 2004-05 while still addressing the debt obligated by existing agreements. Additional funding will be needed to complete 2004-05 and beyond until such time as revenue from operations is projected to become available. That projection is currently FY 2010-11 and will be further analyzed through the completion of the market study and assessments to be completed in June 2002. A total of $1,219,925 will be required from other funds to supplement NCRA's administrative needs until operational revenues become sufficient to provide that need in FY 2009-10. Potential funding sources include additional proceeds from aggressive property management, the re-direction of State funds from forgiveness of the Q-Fund, Federal transportation funding, and local funding through regional agencies.

Needs for maintenance of way will be evaluated upon receipt of the proposals for operators that are expected by the end of June 2002.

Schedule A--Projected Revenue and Expenditure Summary--Does not include Capital Project Revenues or Expenditures

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Balance Forward	**$200,000**	**$914,400**	**$623,525**	**$257,150**	**-$109,225**	**-$475,600**	**-$841,975**	**-$1,136,950**	**-$1,231,925**	**-$1,231,925**	**-$1,231,925**	**-$1,222,875**	**-$182,875**
Annual property revenue	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000
FEMA/OES retention	$396,000	$96,000											
Santa Rosa easement	$338,400												
Freight and excursion revenue								$200,000	$450,000	$700,000	$1,000,000	$1,300,000	$1,300,000
Sale of surplus equipment		$124,000											
Signal crossing maintenance fund		$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000
TCR Admin	$500,000												
Q-Fund	$1,300,000												$10,700,000
Total revenue available	**$2,914,400**	**$1,436,400**	**$925,525**	**$559,150**	**$192,775**	**-$173,600**	**-$539,975**	**-$634,950**	**-$479,925**	**-$229,925**	**$70,075**	**$379,125**	**$12,119,125**
Annual Expenditures													
Property management	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000
NWPRA loan	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000							
RREDC loan	$21,400	$21,400	$21,400	$21,400	$21,400	$21,400							
TXL capital	$7,075	$7,075	$7,075	$7,075	$7,075	$7,075	$7,075	$7,075	$7,075	$7,075			
Option B interest	$27,900	$27,900	$27,900	$27,900	$27,900	$27,900	$27,900	$27,900	$27,900	$27,900			
Administration	$513,845	$430,500	$410,000	$410,000	$410,000	$410,000	$410,000	$410,000	$410,000	$410,000	$410,000	$410,000	$410,000
Crossing Maintenance	$31,780	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000	$122,000
One Time Payment													
Ukiah depot grant local match	$18,000												
Long-Term Liabilities													
PALCO notes ($170,000)											$170,000		
Meecham Loan ($124,000)		$124,000											
Q-Fund ($12,000,000) (1)	$1,300,000												$10,700,000
Deferred Liabilities													
Neary ($122,000)									$122,000				
General accident ($50,000)									$16,025	$33,975			
UP car hire ($371,000) (2)										$171,050	$199,950		
Other car hire ($561,000) (2)										$200,000	$361,000		
Troutman Sanders ($17,000)									$17,000				
Caltrans Audit Exceptions ($166,000)													
Liability to be Forgiven													
Community disaster loan ($800,000)													
Liabilities not Considered Valid													
Boyle engineering ($47,000)													
Rail-Ways bankruptcy ($2,000,000)													
Mass electric claim ($1,328,000)													
Rail-Ways/NWPY/Norcare ($3,546,826)													
Caltrans Audit Exceptions ($500,000)													
Total expenditures	**$2,000,000**	**$812,875**	**$668,375**	**$668,375**	**$668,375**	**$668,375**	**$596,975**	**$596,975**	**$752,000**	**$1,002,000**	**$1,292,950**	**$562,000**	**$11,262,000**
Ending Balance	**$914,400**	**$623,525**	**$257,150**	**-$109,225**	**-$475,600**	**-$841,975**	**-$1,136,950**	**-$1,231,925**	**-$1,231,925**	**-$1,231,925**	**-$1,222,875**	**-$182,875**	**$857,125**

Notes:

(1) There is potential for shortfall in the Q-Fund payoff depending on the annual rate of return received on the funds held in the Local Agency Investment Fund Shortfall of $700,000 is projected at time of payoff. See page 9 of the text for additional information.

(2) Car hire liability is currently the focus of review by technical consultants. See text (page 13) for the potential annual growth NCRA intends to arrive at a negotiated settlement with the car owners and has had initial discussions with Union Pacific regarding this issue.

Schedule B

NCRA 2002-03 Preliminary Budget--adopted 3/20/02

DESCRIPTION	2000-01 BUDGET	2000-01 ACTUAL	ADOPTED 01-02	SPENT THRU 12/31	%	PROJ. THRU 6/30/02	%	PROPOSED 02-03	% Change
ADMINISTRATION									
Personnel									
Executive Director	112,000	111,594	117,600	55,797	47.4%	117,600	100.0%	117,600	100.0%
Accountant	25,000	28,662	56,700	18,228	32.1%	18,228	32.1%	0	0.0%
Administrative Assistant	33,000	27,783	29,200	14,586	50.0%	29,200	100.0%	29,200	100.0%
Project Manager	10,000	11,013	15,000	43,575	290.5%	74,000	493.3%	15,000	100.0%
Medical Insurance	13,000	2,204	13,000	3,254	25.0%	7,000	53.8%	6,000	46.2%
Employer payroll taxes (1)	6,000	0	0	0	0.0%	0	0.0%	0	0.0%
Retirement (PERS)	24,500	24,921	30,000	19,717	65.7%	30,000	100.0%	21,000	70.0%
subtotal	**223,500**	**206,177**	**261,500**	**155,157**	59.3%	**276,028**	105.6%	**188,800**	72.2%
Services and Supplies									
Telephone	15,000	8,971	12,000	7,184	59.9%	14,000	116.7%	14,000	116.7%
Rent and Utilities	600	2,522	1,200	2,876	239.7%	6,000	500.0%	6,000	500.0%
Supplies	17,400	11,062	7,000	5,332	76.2%	7,000	100.0%	7,000	100.0%
Office Furniture and Equipment	6,000	1,374	3,000	0	0.0%	0	0.0%	2,000	66.7%
Computer Software License	4,000	2,535	0	0	0.0%	0	0.0%	0	0.0%
Computer Support Svcs.	0	0	2,000	2,456	122.8%	3,000	150.0%	0	0.0%
Travel Reimbursement	12,000	14,300	20,000	8,266	41.3%	16,000	80.0%	16,000	80.0%
Fees and Assessments	5,000	1,865	5,000	2,609	52.2%	5,000	100.0%	5,000	100.0%
Other	3,000	9,000	0	0	n/a	0	n/a	0	0.0%
Business Plan	2,000	0	2,000	0	0.0%	0	0.0%	0	0.0%
Long Range Plan	20,000	0	20,000	0	0.0%	0	0.0%	20,000	100.0%
Janitorial services	2,000	2,007	3,000	1,221	40.7%	2,500	83.3%	2,500	83.3%
subtotal	**87,000**	**53,636**	**75,200**	**29,944**	39.8%	**53,500**	71.1%	**72,500**	96.4%
Professional Services									
Mustola Management	66,000	37,811	0	0	0.0%	16,000	0.0%	0	0.0%
Special accounting projects	26,500	26,238	0	2,869	n/a	36,000	n/a	45,200	n/a
Single year audit	25,000	11,331	25,000	5,513	22.1%	25,000	100.0%	25,000	100.0%
Legal Counsel	45,000	50,724	55,000	32,444	59.0%	65,000	118.2%	55,000	100.0%
Insurance	40,000	2,718	50,000	16,551	33.1%	20,000	40.0%	20,000	40.0%
Board stipend	0	0	12,000	5,100	42.5%	12,000	100.0%	12,000	100.0%
Maintenance of Equipment	0	0	0	0		0		3,000	n/a
subtotal	**202,500**	**128,822**	**142,000**	**62,477**	44.0%	**174,000**	122.5%	**160,200**	112.8%
Capital Expenditures									
Hyrail vehicle	0	30,013	0	5,678	n/a	5,678	n/a	0	0.0%
Computer-copier	0	3,089	0	4,639	n/a	4,639	n/a	0	0.0%
subtotal	**0**	33,102	**0**	**10,317**	n/a	**10,317**	n/a	**0**	0.0%
Contingency	**0**	**15,396**	**21,300**	**0**	0.0%	**0**	0.0%	**9,000**	42.3%
TOTAL ADMINISTRATION	**513,000**	**437,133**	**500,000**	**257,895**	51.6%	**513,845**	102.8%	**430,500**	86.1%

See notes on Sheet 2

(1) Employee payroll taxes included in employee salary.

Notes

The project manager position as budgeted for the 01-02 fiscal year provided that approximately 80% of the salary would be charged to capital projects and reimbursed from the TCR funds. This assumption was based upon the ability to start some of the capital projects during the FY 01-02. This has not occurred and consequently the majority of the Project Manager's salary is applied against the Administrative Budget. Absent this change, the actual Administrative expenses are projected to 91% of the budgeted amount, a savings of 9% or approximately $44K.

NCRA will be contracting with Sonoma County to provide accounting services. After the initial setup costs of $15,440 that will be paid in 2001-02, there will be an annual saving of approximately $23,000 over the cost of the full time accountant position.

Schedule C--NCRA Liabilities   as of May 2002

	Annual	Long-Term	To be Forgiven	Not Valid	Deferred
Option B Interest	279,000				
Palco Notes		170,000			
RREDC	107,000				
Meecham Loan		124,000			
Neary					122,000
General Accident					50,000
UP Car Hire					371,000
Other car hire					561,000
Troutman Sanders					17,000
NWPRA Loan	190,000				
Boyle Engineering				47,000	
Caltrans Audit Exceptions				500,000	166,000
Rail-Ways Bankruptcy				2,000,000	
Mass Electric Claim				1,328,000	
Rail-Ways/NWPY/Norcare				3,546,826	
Community Disaster Loan			800,000		
TXL Capital	63,675				
Q-Fund		12,000,000			
Total	**639,675**	**12,294,000**	**800,000**	**7,421,826**	**1,287,000**